MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BFN 2054 – PORTFOLIO MANAGEMENT

(All sections/ Groups)

16 OCTOBER 2019
(2:30 P.M. – 4:30 P.M.)
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of **2** pages excluding cover page with **5** questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

Please Answer All the Questions

Question 1: (20 marks)

a) What factors make the valuation of common stocks more complicated than the valuation of bonds and preferred stock? **(10 marks)**

b) The earnings and dividends of MicroSun Computer Co. are expected to grow at an annual rate of 15 percent over the next 4 years and then slow to a constant growth rate of 8 percent per year. MicroSun currently pays a dividend of RM0.50 per share. What is the value of MicroSun stock to an investor who requires a 14 percent rate of return? **(10 marks)**

Question 2: (20 marks)

a) Explain how diversification can reduce the risk of a portfolio of assets to below the weighted average of the risk of the individual assets. **(10 marks)**

b) Jim Bowles is an investor who believes the economy is gaining strength and, therefore, wishes to increase the risk of his 14 security portfolio. Each security has a current market value of RM5,000 and the current beta of the portfolio is 1.02. The beta of the least risky security is .76. If Jim replaces the least risky security with another security with the same market value but a beta of 1.45, what will the portfolio beta be then? **(10 marks)**

Question 3: (20 marks)

a) The Adaven issued RM50 million of perpetual bonds in 1990. The bonds were issued in RM100 denominations with an annual coupon interest rate of 5%. Determine the value of these bonds today to an investor who requires a 10% return on his investment. **(5 marks)**

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b) You have the following information on two securities in which you have invested:

Security	Expected Return	Standard Deviation	Beta	Percent Invested (w)
Xeror	15%	4.5%	1.20	35%
Kodak	12%	3.8%	0.98	65%

i) Which stock is riskier in a portfolio context? Which stock is riskier if you are considering them as individual assets (not part of a portfolio)? **(5 marks)**

ii) Compute the expected return on the portfolio. **(5 marks)**

iii) If the securities have a correlation of +0.60, compute the standard deviation of the portfolio. **(5 marks)**

Question 4: (20 marks)

a) List the Five (5) major categories of real estate. **(5 marks)**

b) Explain in detail the different between private equity and venture capital? **(15 marks)**

Question 5: (20 marks)

a) What is the point of portfolio rebalancing? Why not just leave the portfolio alone? **(10 marks)**

b) Give a general explanation of the concept of risk-adjusted performance measurement. **(10 marks)**

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